

Master Document – Audit Program

Activity Code 19408		Compliance Audit CAS 408
Version 5.0, dated April 2004		
B-1	Planning Considerations	
Purpose and Scope		
<p>1. The purpose of CAS compliance auditing is to determine if the contractor's policies, procedures, and practices used to estimate, accumulate, and report costs on Government contracts and subcontracts comply with the requirements of CAS. CAS 408 establishes criteria for uniformity in the measurement of costs of vacation, sick leave, holiday, and other compensated personal absence for a cost accounting period; thereby increasing the probability that the measured costs are allocated to the proper cost objective. FAR 52.230-2, Cost Accounting Standards, requires the contractor to comply with the CAS 408 criteria.</p>		
<p>2. The scope of this audit should generally be limited to current contractor fiscal year (CCFY). Testing of prior years transactions, especially unaudited fiscal years, is acceptable to assure that no system changes were made and no noncompliances exist. For efficiency, CAS compliance testing, if possible, should be performed concurrently with tests for compliance with FAR and contract terms.</p>		
<p>3. This program is intended to provide for the proper planning, performance, and reporting on the contractor's compliance with CAS 408. The audit steps in the program should reflect a documented understanding between the auditor and the technical specialist and/or the supervisor as to the scope required to comply in an efficient and effective manner with generally accepted auditing standards and DCAA objectives. The program steps are intended as general guidance and should be tailored as determined by audit risk.</p>		
Planning Considerations		
<p>1. Before beginning any CAS compliance audit, the auditor should first determine whether the contractor is subject to the CAS coverage. If the standard is not applicable to the contractor or noncompliance with the standard overall has no significant impact on Government contract costs, there is no need to test whether the contractor is complying with the standard. The decision to not test for CAS compliance should be documented (see CAM 8-305 and DoD CAS Working Group Guidance Paper 76-7).</p>		
<p>2. Materiality (see 48 CFR 9903.305) and audit risk assessment (including Internal Control Audit Planning Summary (ICAPS) for major contractors, ICQ for nonmajors, and historical CAS problems) are integral parts of the planning process and should be considered in developing the extent and frequency of CAS compliance tests.</p>		
<p>3. Once it is determined that the standard is applicable and material to the Government, the</p>		

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auditor should assess which provisions of the standard are significant to the contractor; the extent reliance may be placed on the contractor's system of internal controls to ensure compliance; and the results of other relevant audits (e.g., results of prior compliance audits, Disclosure Statement revisions, etc.). The decision to not test whether the contractor is complying with specific provisions of the standard should be documented.
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B-1	Preliminary Steps	WP Reference
Version 5.0, dated April 2004		
1. Research and Planning		
a.	Read and become familiar with the criteria in CAS 408, CAM 8-408, and any recent Headquarters guidance not incorporated in CAM.	
b.	Evaluate Parts III and VI of the contractor's Disclosure Statement items to become familiar with the disclosed accounting practices. Determine if the contractor's accounting system has remained unchanged since the last CAS compliance audit. If changes have occurred, adjust audit scope accordingly.	
c.	From the most recent incurred cost proposal or forward pricing rate proposal, determine whether total costs subject to CAS 408 are material. Consider contractor's sales mix (i.e., CAS-covered Government contracts vs. not-CAS-covered and commercial) when determining materiality of costs subject to this standard. If not, discuss with supervisory auditor before continuing audit.	
d.	Examine the FAO permanent files (including ICAPS or ICQ, audit leads from other relevant audits, and MAARs Control Log) and prior audit workpackages to determine what data are available, what audit steps were done in the past, and the results from those steps. This will identify areas of high risk and/or areas where limited or no compliance testing is necessary.	
e.	Discuss the planned compliance audit with the administrative contracting officer and, if appropriate, other customers to identify, understand, and document any concerns they may have or areas, which should be evaluated.	
2. Entrance Conference and Preparation		

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a. Arrange and conduct an entrance conference covering the areas highlighted in CAM 4-302 with particular emphasis on:	
(1) Compensated personal absence policy	
(2) The contractor's explanation of the internal control structure.	
(3) Any changes since the last audit.	
(4) The contractor's monitoring process.	
(5) Any identified weaknesses which may have been reported and related follow-up actions.	
(6) Chart of accounts applicable to CAS 408.	
(7) Account balances at the end of the two most recent accounting periods.	
b. If reliance is to be placed on the work of others, the file should contain the required documentation (see CAM 4-1000).	
3. Risk Assessment	
a. Examine the ICQ or relevant ICAPS (whichever is applicable), to obtain information regarding accounting system adequacy, identify any known outstanding system deficiencies, and perform preliminary assessment of risk. Document results.	
b. If the contractor is classified as non-major (where ICAPS have not been completed) and if the evidential matter to be obtained during the audit is highly dependent on computerized information systems, document on working paper B-2 the audit work performed that supports reliance on the computer-based evidential matter. Specifically, document or reference one or more of the following in working paper B-2:	
(1.)the audit assignment(s) where the reliability of the data was sufficiently established in other DCAA audits,	
(2.)the procedures/tests that will be performed in this audit to evaluate the incurred costs that will also support reliance on the evidential matter, and/or	
(3.)the tests that will be performed in this audit that will be specifically designed to test the reliability of the computer based data.	
When sufficient work is not performed to determine reliability (i.e., reduce audit risk to an acceptable level), qualify the audit report in accordance with CAM 10-210.4a and 10-807.3.	

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c. In planning and performing the examination, consider the fraud risk indicators in CAM Figure 4-7-3 for applicability to this audit. Document in working paper B any identified fraud risk indicators and your response/actions to those identified risks (either individually, or in combination). This should be done at the planning stage of the audit as well as during the audit if risk indicators are disclosed. If no risk indicators are identified, document this in working paper B.	
d. From the information gathered in the preceding steps and using the materiality criteria in 48 CFR 9903.305, assess the audit risk and determine the scope of audit and extent of compliance testing to be performed.	
e. Coordinate the scope of audit with the technical specialist and/or the supervisor.	
f. Update the information in the permanent files as needed.	

C-1	Compensated Personal Absence	WP Reference
Version 5.0, dated April 2004		
1.	Evaluate the contractor's written compensated personal absence (leave) policies, understand if the contractor has one or more plan or custom for compensated personal leave (vacation, sick, holidays, etc.), and verify that the written policies are consistently followed by the contractor.	
a.	For each plan, determine when entitlement is earned. Entitlement is generally explained in the plan, custom or disclosed accounting practices, and is earned when the contractor (the employer) has an obligation to pay. (CAS 408.50(a)).	
b.	Test the contractor's computation of earned entitlement for a given accounting period for a sample of employees, by referring to source documents supporting the journal entries. The contractor's calculation of earned entitlement should be in accordance with the requirements of CAS 408.50(b)(2).	
2.	Evaluate the contractor's disclosed accounting practices, and determine if the accounting treatment for compensated personal absence is on the <i>cash</i> or <i>accrual</i> basis. (CAS 408.40(a)).	
a.	If the accounting treatment is on the cash basis, verify that the contractor has assigned to the cost accounting period the cost of all compensated personal leave paid to employees during the period.	

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There should not be a carry-forward liability for compensated personal leave, if the contractor is not required to pay the employees for unused leave upon termination.	
b. If the accounting treatment is on the accrual basis, evaluate the contractor's journal entries and verify that the contractor has assigned to the cost accounting period the costs of all the entitlement the employees earned during the period. Generally, a compensated personal leave liability account in the general ledger will indicate the standard (recurring) journal entries the contractor uses in recording the costs of the assigned liability. These costs will (CAS 408.50(c)):	
(1) include all entitlement that exists at the time the liability is determined.	
(2) be reduced for anticipated significant non-utilization.	
(3) be consistently estimated either in terms of current or anticipated wage.	
c. Verify that compensated personal leave costs are allocated pro-rata on an annual basis among final cost objectives of the period.	
3. If the contractor changed its compensated personal leave plan or adopted a new plan, compare the contractor's compensated personal leave liability under the new plan with the liability under the old plan, at the first cost accounting period the new plan has become effective. If the liability under the new plan exceeds the liability under the old plan, verify that the contractor held the difference in a suspense account and did not charge it to Government contracts in the same accounting period (CAS 408.50(d)(2).	
(Audit tests in this area will partially satisfy the requirements of MAAR No. 10)	
4. Determine that the amount held in suspense is reduced, at the end of each cost accounting period, by the excess of the suspense amount at the beginning of the period over the liability at the end of the period. The excess shall be added to the cost of compensated personal absence assigned to the cost accounting period (CAS 408.50(d)(3)).	
(Audit tests in this area partially satisfy the requirements of MAAR No. 10)	

A-1	Concluding Steps	WP Reference
Version 5.0, dated April 2004		
1.	Summarize the results of audit.	
2.	Discuss results with the supervisor and/or the FAO technical	

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specialist. The auditor should only report those noncompliances which are considered material (see CAM 8-302.7).	
3. Coordinate significant or unusual issues with the CFAO, FAO Manager, and if applicable, with the CAC, CHOA, or GAC network (see CAM 8-302.4 8-302.6). Coordination should be both before and after discussion of results with the contractor. The CFAO should be apprised of noncompliance matters at the earliest possible date. If a noncompliance is considered immaterial, recommend to the ACO that the contractor be notified to reserve the Government's right should the cost impact become material (see FAR 30.602).	
4. Prepare draft audit report in accordance with CAM 10-807 (activity code 19408) when no instances of noncompliances are found, or CAM 10-808 (activity code 19200) when instances of noncompliances are found.	
5. Conduct an exit conference with the contractor in accordance with CAM 4-304.	
6. Finalize audit report incorporating the contractor's response and audit rejoinder, if applicable.	
7. Closing actions should be performed in accordance with FAO procedures. These procedures may require either auditors or administrative personnel to perform various closing steps. Completion of these closing actions should be documented (e.g., by initials and date on the CD or working paper folder, etc.) and should include:	
a. The title, author, and keywords fields of the file properties in the audit report must be completed (for the audit report only) prior to final filing.	
b. Review the APPS exe file for size. APPS-generated executable files that are over 10 megabytes in size should be reviewed to ensure that the format and content justify the size. Supervisors are responsible for reviewing or designating someone to review these files for content and format.	
c. Review the APPS exe file for temporary files. These files can be recognized by the “~\$” or “~WRL” at the beginning of the file name. Once the APPS exe file is complete and there is NO ACTIVITY to be completed on any of the files contained within the exe file, any temporary files should be deleted so there are no unintentional versions of working papers and/or reports. NOTE: This should be done prior to invoking the Export/Archive Option in APPS.	
d. Once an audit report is signed, the electronic document should immediately be modified to indicate who signed it, and it should be password protected. The electronic file should then be renamed according to the convention “01 DCAA Report [RORG-ASSIGNMENT NO.] – Final.doc” and changed to a read-only file. Only this file should be stored, transmitted, or otherwise used for official purposes. For Memorandums the word “Report”	

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would be replaced by “MFF” or “MFR” in the naming convention as appropriate.	
e. When the audit report is transmitted electronically to the requestor, the transmission email should be saved as a txt file (this will ensure the attachments are not saved again). Saving delivery or read receipts is optional. If saved, the naming convention should distinguish them from transmittal emails.	
f. Once the report is signed, the signature page of the audit report must be scanned in accordance with Agency standard scanning instructions. For audit packages, the scanned signature page file should be named the same as the audit report (see above) with “-sig” added (i.e., 01 DCAA Report 01101-2002X10100389-Final-sig.pdf). There is no requirement to make the file a part of the APPS generated executable file and it must be included separately in the iRIMS folder. There is no need to scan the signature page of a Memorandum unless it is distributed outside of DCAA.	
g. Ensure an electronic copy of the final draft audit report containing the supervisory auditor’s initials and date, cross-referenced to the working papers, is included in the working paper package. The final draft report should include all substantive changes made to the original draft, with cross-referencing updated as necessary. It should differ from the final report only due to minor administrative changes (spelling, format, etc.) made during final processing.	
h. Ensure all working paper files are "read only" and, if necessary, compressed for final storage. Generally, current Agency software should be used to automatically modify all electronic files for storage.	
i. Two complete sets of electronic working papers should be filed. One set (official) will be filed in iRIMS. A second set (backup) will be stored on removable media in the hard copy working paper folder. The new APPS naming convention (ex: 01701_2003A10100001_Archive_093003.exe) will be used for both. If there will be a short-term need to access the working papers, a third, or "working" set should be stored so as to be available for reference, generally on the LAN. This set should be deleted when no longer needed.	
j. Verify using a separate machine, that electronic files stored on removable media are not corrupted and can be unarchived. Indicate the test was successful by placing tester initials and date prominently on the CD label.	
k. Securely enclose the “backup” set of electronic files (CD) and any “official” set of hard copy in the hard copy folder.	
l. File the “official” set of electronic files in iRIMS (see iRIMS User Guide).	
m. <u>Do Not File Sensitive Audits in iRIMS</u> : Sensitive audits include but are not limited to classified work, suspected irregular conduct,	

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hotline or DCAA Form 2000 related files. These audits should not be filed in iRIMS at this time. See CAM 4-407f for filing instructions.	
8. Update the permanent files, i.e., applicable ICAPS or ICQ, and applicable Mandatory Annual Audit Requirements (MAARs) schedules. <i>Ensure that a copy of DMIS Report No CAS 3 entitled “CAS Compliance Testing (Activity Code 194XX)” is included in the permanent file after the assignment has been closed in DMIS.</i>	